Cash Course | Grades 6+

The Cost of Price Controls | Lesson Plan

What happens when governments set price controls, and how do these policies impact consumers, businesses, and the overall economy?

Students will understand how price controls, including price floors and price ceilings, disrupt natural market equilibrium, leading to unintended economic consequences such as shortages, surpluses, and inefficiencies

Learning Objectives:

- Explain how prices naturally reach equilibrium in a free market based on supply and demand.
- Define price controls, including price floors (e.g., minimum wage) and price ceilings (e.g., rent control), and their intended purposes.
- Analyze how price floors can lead to labor surpluses (unemployment) and how price ceilings can cause shortages (housing crises).
- Evaluate historical and modern examples of price controls to determine their real-world economic impacts.
- Apply economic reasoning to assess price control policies and make informed financial or voting decisions.

Key Vocabulary:

- **Price Controls**: Government-imposed limits on the high or low price that can be charged for a good, service, or labor.
- **Price Floor**: A government-set minimum price that must be paid for a good, service, or labor, preventing prices from falling below a certain level.
- **Price Ceiling**: A government-set maximum price that can be charged for a good or service, preventing prices from rising above a certain level.
- **Market Equilibrium**: The point where supply and demand balance, meaning the quantity of goods supplied equals the quantity demanded at a certain price.
- **Shortage**: A situation where supply exceeds demand because prices are set too high, leading to excess goods or services that go unused.

Educational Standards: CCRA.R.7, CCRA.R.10, CCRA.W.2, CCRA.W.4, CCRA.W.7, CCRA.SL.1, CCRA.SL.2, CCRA.L.6

Academic Subject Areas: Economics, Government & Civics, Business & Personal Finance

What You'll Need

- Video: *Ca$h Cour$e: The Cost of Price Controls* (Watch Here)
- Worksheet: *Ca$h Cour$e: The Cost of Price Controls* (Click Here)

Scan to watch episode:

- Classroom whiteboard and dry-erase markers (or use a technology solution if available).

Lesson Plan (50 mins.)

Warm-Up: (10 mins.)

1. Begin by writing the terms "Price Ceilings" and "Price Floors" on the whiteboard, along with “Unintended Consequences” underneath them.
2. Explain to the students that you will be discussing these topics in today's lesson. Ask if anyone has heard these terms before. Encourage students to share what they know or think about when it comes to price controls and the economy.
3. Set the lesson with the following two scenarios. Ask the students to imagine they go to their favorite fast-food restaurant, but something strange is happening:
    - **Scenario 1**: The menu says your favorite burger now costs only $1.00, but it’s sold out and has been for hours.
    - **Scenario 2**: The menu says your favorite burger now costs $25.00, so you walk out wondering who could afford that.
4. Ask students to consider:
    - Why was the burger sold out in Scenario 1? (Possible answers: Too cheap, too much demand, not enough supply.)
    - Why was the burger so expensive in Scenario 2? (Possible answers: Higher costs, ingredient shortages, price adjustments.)
5. After students respond to the burger scenarios, briefly introduce **market equilibrium**. Explain that in a free market, prices naturally balance supply and demand. Problems arise when prices are too high or too low.
6. Introduce the essential question: *What happens when governments set price controls, and how do these policies impact consumers, businesses, and the overall economy?*
7. Explain that the lesson will explore this question in depth.

Watch and Discuss: (20 mins.)

1. Show the *Ca$h Cour$e: The Cost of Price Controls* video to the class.
2. Pause the video at strategic points to facilitate discussion and reflection, or watch the video then discuss the following:
    - Understanding **Price Controls**:
        - *Why might governments set price controls?*
        - Clarify: Price controls aim to make goods affordable but can have unintended consequences when prices can't adjust naturally.
    - Effects of **Price Floors** (e.g., minimum wage):
        - *What are the intended benefits of minimum wage laws?* (Possible responses: Higher wages, less poverty, worker protections.)
        - *What unintended effects can occur?* (Possible responses: Job cuts, fewer hiring opportunities, increased costs for businesses.)
        - *How might businesses respond?* (Possible responses: Raising prices, cutting hours, using automation.)

- Effects of **Price Ceilings** (e.g., rent control):
    - *How does rent control impact tenants and landlords?* (Possible responses: Short-term savings for renters, but fewer available apartments.)
    - *What happens when landlords can't raise rents?* (Possible responses: Less maintenance, fewer upgrades, lower-quality housing.)
    - *If you were a landlord, how would you adjust your decisions?* (Possible responses: Sell property, charge extra fees, avoid renting out units.)

3. Summarize the key takeaways from the video using the whiteboard
    - Under "Price Ceilings" write:
        - Example: rent control
        - Effect: Housing shortages, lower quality apartments
    - Under "Price Floors" write:
        - Example: minimum wage
        - Effect: job losses, higher prices for goods
    - Sum up the "Unintended Consequences" section with the following three words:
        - Shortages (when prices are too low)
        - Surpluses (when prices are too high)
        - Market equilibrium (when prices naturally adjust to balance supply and demand)

Wrap-Up: (20 mins.)

1. Distribute worksheets. Have students work individually or in small groups to apply their understanding of price floors, price ceilings, and unintended consequences.
2. Encourage critical thinking: Students should justify why a price control might seem beneficial at first but lead to economic distortions.
3. Facilitate a brief class discussion:
    - Have students share key insights from their worksheet responses.
    - Review answers together, clarifying any misunderstandings.
    - Collect worksheets to assess understanding (optional formative assessment).
4. Revisit the essential question. Ask students the following: "Now that we've learned about price controls, how would you answer our big question: What happens when governments set price controls, and how do these policies impact consumers, businesses, and the economy?"
    - Encourage students to share their insights.
5. Closing reflection: Emphasize that price controls are complex—while they aim to help consumers, they often create shortages, surpluses, and economic inefficiencies. Encourage further exploration and state the following: "Next time you hear about minimum wage laws or rent control debates, think critically. What are the trade-offs?"

Extension Activities (Optional):

- Host a Debate or Town Hall: Divide students into groups representing consumers, businesses, and government officials. Have them debate a proposed minimum wage increase (price floor) or rent control policy (price ceiling) and discuss the potential benefits and consequences.

- Research a Real-World Example: Assign students to investigate historical or modern cases of price controls (e.g., rent control in New York, Venezuela's food price regulations, or minimum wage laws in various states). They can present their findings on how these policies impacted supply, demand, and economic stability.
- Simulate a Controlled Market: Conduct a classroom market simulation where students act as buyers and sellers. First, let prices adjust naturally based on supply and demand. Then, introduce government-imposed price floors or ceilings and observe how it affects availability, affordability, and trade.

Don't have time for the full lesson? Quick Activity (10-15 mins.)

Distribute the worksheet and allow students to complete it while they follow along with the video. Or, have students watch the video at home and use the worksheet as a quick quiz the next day in class.